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REPORT TO THE FINANCE
COMMITTEE THE CORP. OF THE
CITY OF HAMILTON - COMPREHENSIVE
AUDITING - PHASE I.

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GOVERNMENT DOCUMENTS

A REPORT TO FINANCE COMMITTEE

THE CORPORATION OF THE CITY OF HAMILTON

COMPREHENSIVE AUDITING - PHASE I

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SYNOPSIS

The Council of the Corporation of the City of Hamilton commissioned this Phase I study to assist them in concluding:

- ° whether the Corporation would receive a benefit from a comprehensive audit and if so;
- ° which department or function would yield the greatest benefit if it were to be examined using the comprehensive audit process.

During the conduct of this study we conducted interviews with people that represented or had substantial interaction with every major activity of the Corporation. We interviewed both elected and appointed officials and examined various materials.

The major criteria underlying the methodology used during the study were public visibility; size of budget; risk; special considerations; and auditability. These are further explained in the report.

Generally, we found a good level of awareness of the need for proper controls and performance measures where they could appropriately be determined and applied and; that everyone interviewed believed that some benefits, albeit difficult to quantify, would result from a comprehensive audit.

We have explained the general limitations of the comprehensive audit process, namely that it does not attempt to substitute the judgment of auditors for that of elected or appointed decision makers. It does, however, determine whether the organization provides those who make the decisions with sufficient, accurate, relevant information to fulfill their responsibilities.

To ensure maximum effectiveness the audit team would be advised and guided by a Steering Committee made up of selected aldermen and senior appointed officials.

The concept, definition, characteristics and potential benefits of a comprehensive audit are set out in an appendix to the report.

Finally, the report concludes that the Corporation of the City of Hamilton would derive benefits from the comprehensive audit process and that those benefits are likely to be the greatest in the following areas:

1. Property Management

A comprehensive audit of this function would embrace all aspects of real property owned, controlled and maintained by the corporation and could result broadly in improved reporting structures and hence improved accountability.

We estimate this project would cost in the range of \$ 60,000 - \$ 80,000.

SYNOPSIS (continued)

2. Solicitor's Department

A comprehensive audit of this function would address value for money issues related to a service function where measurement of delivery is difficult. Under these conditions independent objective assurance would be desirable.

We estimate this project cost in the range of \$ 25,000 - \$ 35,000.

3. Public Works

A comprehensive audit of this function would examine, among other things, questions of human resource management, and the existing maintenance management system.

We estimate this project cost in the range of \$ 80,000 - \$ 100,000.

THE PHASE I STUDY

This study was commissioned by the Council of the Corporation of the City of Hamilton to assist them to conclude whether or not the Corporation would, at this time or in the future, receive a benefit from a Comprehensive Audit. In addition, the Council was seeking guidance on which department or function would, if it were to be examined using the comprehensive audit process, yield the greatest benefit. Our scope was limited to areas or functions that do not overlap with the Region.

Council requested this study in recognition of the continuous need to re-examine management practices for value for money considerations and more specifically, in the expectation that comprehensive auditing, though a new tool for Canadian municipalities, would prove to be an effective process for so doing.

Should Phase II of the project, the actual comprehensive audit, go ahead, it will be viewed as an experiment that, if successful, will probably lay the groundwork for future examinations of this type.

The broad wishes of Council were articulated by the Finance Committee at its meeting of September 2, 1983 and the specific terms of reference for this Phase I study were established. They are set out in Appendix A.

The report discusses the methodology we used in conducting this study, our findings, a general explanation of comprehensive auditing in terms of concept, definition, characteristics, benefits and limitations and finally; our recommendations on those areas and/or functions of the Corporation that would, in our opinion, be most beneficial to apply the comprehensive audit process to.

We would like to take this opportunity to express our appreciation to the members of Council and senior appointed officials for the excellent co-operation we received during the conduct of this study.

METHODOLOGY

We undertook a preliminary analysis of the Corporation and arranged interviews with the people we felt either represented or had substantial interaction with every major activity of the Corporation. We sought interviews with members of Council and senior appointed officials in order to obtain the view of the elected official as well as the appointed one. Those interviewed are set out in Appendix B and represent the following major areas of activity:

- ° Council
- ° Public Works
- ° Protection to Persons and Property
- ° Culture and Recreation
- ° Treasury
- ° Administration
- ° A Board.

METHODOLOGY (continued)

During the course of our interview we endeavoured to clarify the concept of "comprehensive" or "value for money" auditing for the interviewee and went on to explore the potential application of this concept to their specific area of responsibility. In almost every interview we obtained for review, inter alia, copies of relevant studies that were about to be undertaken or had been undertaken. Most importantly we received the candid thoughts and opinions of the interviewees. The material reviewed is set in Appendix C.

Our analysis and interview methodology was formulated to allow us to arrive at those subject areas that, if examined using the comprehensive audit process, would probably provide the Corporation with the greatest benefit.

The criteria we used during the course of this study were:

- ° public visibility; public's proximity to the issue, eg. snow removal;
- ° size of budget; proportion of annual budget expended;
- ° risk; potential for exposure both economically and politically;
- ° special considerations; other factors that would significantly influence a decision;
- ° auditability; can be audited.

GENERAL FINDINGS

Our findings indicated a good level of awareness of the need for proper controls and performance measures where they could appropriately be determined and applied. Virtually everyone interviewed felt the application of value for money auditing to the Corporation would be a benefit whether it resulted in specific recommendations for improvement or in an independent, objective opinion that any particular function was operating with due regard for value for money.

This is not to say that views were not expressed on areas that could be improved or areas that "appeared" to be experiencing problems but clarification was needed as to whether such problems were real or only perceived.

Everyone interviewed believed that some benefits, albeit perhaps difficult to quantify, would result from a comprehensive audit.

Many potential areas were identified as a result of our analysis and interviews, however, our objective was to identify only three to five areas within the Corporation that would most likely benefit from a "value for money" audit.

COMPREHENSIVE AUDIT - LIMITATIONS

The concept, definition, characteristics and benefits of a comprehensive audit have been set out in Appendix D.

It is very important however, to understand the limitations of a comprehensive audit to avoid both unrealistic expectations and unwarranted apprehensions. A comprehensive audit report does not attempt to substitute the judgment of auditors for that of elected or appointed decision makers. It does, however, determine whether the organization provides those who make the decisions with sufficient, accurate, relevant information to fulfill their responsibilities.

With respect to the City of Hamilton, a comprehensive audit is unlikely to result in major economic savings expressed in terms of a reduction in the mill rate. It could result in recurring annual savings but is more likely to result in significantly greater awareness of good management practices that would provide better services for the same dollars and better internal controls. It could also result in a much greater level of assurance for Council that the particular function or department is operating with due regard for value for money.

RECOMMENDATIONS

The terms of reference for the Phase I study as set out in Appendix A consist of four items. It should be noted that the last three are contingent on whether the Corporation proceeds to Phase II of the project, namely, the comprehensive audit. For that reason this report deals only with the first item.

The first item in our terms of reference is to recommend three to five major areas, in order of priority, together with reasons therefor, which would be most suitable for a comprehensive audit. Based on our findings we recommend the following:

1. Property Management

For purposes of clarity, property management embraces all aspects of real property owned, controlled and maintained by the Corporation. This function involves a number of "departmental" areas including Parks, Real Estate, Community Development, Architect, Building and Maintenance.

- Reasons: - this area spans several departments and hence has the potential for creating communication problems, overlaps and gaps in responsibility;
- a study might result in an improved reporting structure and improved accountability;
 - potential economic benefits could result from analysis of acquisition, use and maintenance of real property;
 - public visibility is high;
 - auditable.

We would estimate the cost for this project to be in the range of \$ 60,000 - \$ 80,000.

RECOMMENDATIONS (continued)

2. Solicitor's Department

- Reasons:
- currently, public visibility high;
 - though annual departmental dollar budget is small the potential risk to the Corporation is high due to work performed - requiring adequate quality control procedures;
 - as a service department, measurement of delivery is difficult, therefore outside assurance may be desirable.

We would estimate the cost for this project to be in the range of \$ 25,000 - \$ 35,000.

3. Public Works

- Reasons:
- public visibility is high;
 - this department is labour intensive begging the question of human resource management, i.e. the right people in the right place at the right time;
 - expends approximately 14% of the annual budget;
 - maintenance management system exists. Analysis of this system for reliability and utility could be beneficial;
 - auditable.

We would estimate the cost for this project to be in the range of \$ 80,000 - \$ 100,000.

Other Areas Considered:

Other areas and functions were considered but have not been recommended at this time for a number of reasons.

Culture and Recreation

Though a major function with high public visibility and expending a large proportion of the annual budget (approximately 13%) the Culture and Recreation department has recently commissioned a study that will result in a Culture and Recreation Master Plan. This plan is expected to provide an "integrated set of planning guidelines, goals and objectives which reflect the cultural and recreational needs for future culture and recreation facilities, programs and services.

With this study currently underway it would not be useful to subject the Culture and Recreation Department to a comprehensive audit because there would be many overlapping issues. The Culture and Recreation Department would, however, be a good area for the future to examine questions of implementation and monitoring of the Master Plan.

RECOMMENDATIONS (continued)

Other Areas Considered: (continued)

Fire Department

This department also expends a large proportion of the annual budget (approximately 18%), however, public visibility is low (except when active). This department is also subject to significant scrutiny from outside the Corporation, i.e. the Ontario Fire Marshalls Office.

E.D.P. Function

As a service function involved with many departments this area was also considered from the viewpoint of value for money questions on information management. However, this function is also being examined with a view to possible re-organization. The project is currently being undertaken by the Municipal Management Information Centre Co-ordinating Committee. Again, since significant activity is now underway that will be addressing value for money issues indirectly this would not be an appropriate time to examine this function.

Other areas and functions were also considered during the course of the Phase I study including the Clerk's Department, Labour Negotiations, Treasury and Finance, The Convention Centre, Hamilton Place and the Library Board. For reasons of lesser perceived benefit or the existence of recent studies and investigations these areas were not recommended at this time for a comprehensive audit. They may, as circumstances change, prove to be fruitful areas to examine in the future.

In conclusion we recommend the following functions and/or departments for a comprehensive audit:

1. Property Management;
2. Solicitor's Department;
3. Public Works.

TERMS OF REFERENCE:

- ° to report specifically on three to five major areas in order of priority, together with reasons therefore, which, in their opinion, would be most suitable for a comprehensive audit;
- ° to assist the Corporation in specifying criteria for the conduct of a comprehensive audit should it elect to undertake such an engagement;
- ° to assist the Corporation in preparing an application to the Provincial Government for funding a comprehensive audit should the Corporation elect to proceed;
- ° to define an appropriate role for Corporation staff in order that they may assist wherever possible and to provide instruction to such staff in the fundamentals of comprehensive auditing.



Interviews held in organizational/alphabetical order.

Mayor:

R. M. Morrow

Aldermen:

P. Cowell, Chairman; Personnel Committee
B. Hinkley, Chairman; Parks and Recreation Committee
W. M. McCulloch, Chairman; Planning and Development Committee
H. Merling, Chairman; Transport and Environment Committee
P. J. Peterson, Chairman; Finance Committee

Senior Appointed Officers:

D. Freeman, Architect
J. McAnanama, Chief Librarian
W. H. McFarland, City Treasurer and Commissioner of Finance
R. A. Morden, Director; Public Works
K. A. Rouff, Solicitor
L. Sage, Chief Administrative Officer
L. G. Saltmarsh, Chief; Fire Department
A. Schimmel, Director; Culture and Recreation

MATERIAL REVIEWED

Estimates of the City of Hamilton for the year ending December 31, 1983.

Corporation of the City of Hamilton, Handbook 1983.

Report of the Hamilton-Wentworth Review Commission; Province of Ontario, May 1978.

The Role of Auditing in Canadian Municipal Administration; Practices, Perceptions and Challenges; Canadian Comprehensive Auditing Foundation; 1983

Comprehensive Auditing; Concepts, Components and Characteristics; Canadian Comprehensive Auditing Foundation, 1983.

System Approach to Municipal Maintenance Management; Department of Highways, Municipal Roads Branch, February 1971.

The Streets By-Law Corporation of the City of Hamilton By-Law No. 9329 as amended by By-Law No. 9417; to and including By-Law No. 82-153; July 1982.

By-Law No. 66-182 Respecting Garbage Collection; By-Law No. 77-221 The Parks By-Law.

Hamilton's Culture & Recreation Department; Definition, Purpose and Operational Principles.

The Hamilton Culture and Recreation Master Plan; Terms of Reference.

Hamilton Fire Department - Policy and Procedures Manual; revised January 28, 1983.

Fire Underwriters Survey, 1980-81.

By-Laws of the Board of the Hamilton Public Library.

Hamilton Public Library Board; Statement of Purpose, Goals and Objectives.

Public Libraries Act; Revised Statutes of Ontario, 1980 Chapter 414, January 1983.

A Statistical Overview - Hamilton Public Library, August 31, 1983; Updated to December 31, 1982.

The Hamilton Public Library Performance Measure Handbook.

Statistical Analysis of Canadian Public Libraries Serving a Population Greater than 100,000; 1977-1981.

Various other information.

COMPREHENSIVE AUDITING

CONCEPT

To help answer the question whether the Corporation would derive any benefits from a "comprehensive" or "value for money" audit, it is crucial to understand that comprehensive auditing is a concept that is based on two important principles of management in the public sector. They are:

- ° public business should be conducted in a way that makes the best possible use of public funds;
- ° people who conduct public business should be accountable for the prudent and effective management of the resources entrusted to them.

DEFINITION

To further clarify the concept, comprehensive auditing has been defined as:

- ° an examination that provides an objective and constructive assessment of the extent to which:
 - financial, human and physical resources are managed with due regard to economy, efficiency and effectiveness; and
 - accountability relationships are reasonably served.

The comprehensive audit examines both financial and management controls, including information systems and reporting practices and recommends improvements where appropriate.

CHARACTERISTICS

There are a number of attributes of a comprehensive audit that ensure that the audit report is objective and reliable, prepared independently of those who are responsible for the function or department under review and based upon an examination of appropriate evidence.

These characteristics, explained in broad terms, are as follows:

Independent and Objective - the audit is lead and conducted by individuals who are independent of all important matters under review.

Comprehensive - implies a systematic approach to understand the entire organization - its structure, its key activities, its broad control needs and the type of information available to council and managers. This does not imply "wall-to-wall" auditing nor does it mean the entire structure of functions and departments need be audited simultaneous.

CHARACTERISTICS (continued)

Cyclical - as suggested above procedures and controls of an organization are usually examined over the course of several audits.

Co-ordinated - to the extent possible the external auditor relies on work done by personnel within the organization.

Co-operative - the greatest benefits of comprehensive audit are likely to be achieved only if there is a spirit of co-operation.

Constructive - the comprehensive audit report is intended to be helpful and future oriented - it makes constructive suggestions about the ways that improvements can be made. It would, however, stop short of designing systems in detail as it would be inappropriate for audit to usurp or appear to usurp management's responsibilities.

Multi-Disciplinary - perhaps the most important attribute of a comprehensive audit is that it ensures a proper level of knowledge to conduct a broad scope audit. It might require an engineer to help review capital acquisitions or a computer expert to audit value for money issues associated with E.D.P.

PROCESS

To ensure that the comprehensive audit process was as effective as possible, the services of selected aldermen and senior officials would be sought, probably in the capacity as members of a Steering Committee. This committee would be provided with regular progress reports and where appropriate it would provide advice and guidance to the audit team.

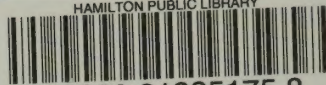
BENEFITS

The primary benefits that can be derived from the comprehensive audit are:

- ° the provision of an objective assessment of the extent to which the organization is currently pursuing value for money practices;
- ° the identification of major deficiencies in management and control practices;
- ° recommendations designed to help obtain better value for money in the future;
- ° information and recommendations that can lead to better internal and public accountability; and
- ° perhaps most importantly, it is a catalyst in the continuous process of improving management practices.

These benefits can extend to managers, elected representatives and the public.

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